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FINANCIAL PROBLEMS OF A GREAT CITY.

BY HON. BIRD S. COLER, COMPTROLLER OF THE CITY OF NEW YORK.

THE science of municipal government made great progress during the nineteenth century along several important lines, but at the beginning of the twentieth century no large city in America had a perfect financial system. Constitutional restrictions, laws, ordinances and methods for public education, sanitation, public improvements and administration have all been modernized and generally improved to meet changed conditions, but a majority of the great municipalities of the country are compelled to conduct their financial affairs under restrictions imposed fifty to one hundred years ago to safeguard the interests of towns and villages.

Banks, business houses and private corporations change their financial systems and business methods to meet new conditions, seeking always to keep abreast of the times and to utilize improvements. The financial affairs of the City of New York, with its vast population, enormous resources and extensive public interests and responsibilities, are to-day regulated by a system adapted to a period when the streets were unpaved, the value of public utilities unknown, and merchants burned oil lamps in front of their stores when the moon was not shining. Franchises granted by the city are to-day the basis of the existence of a score of great corporations, most of them of enormous earning power, yet the public revenue derived from this source is insignificant, and in many cases the method of collecting it is crude and uncertain.

New York has developed two great public utilities into profit paying investments with the net revenue steadily increasing, yet every dollar so expended is a charge against its credit limitation, and this great municipality is placed in the peculiar and unbusinesslike predicament of growing richer and poorer at the

same time. The borrowing capacity of the city is reduced by the real estate it owns, and further reduced by the amount of every bond sold to pay for a public improvement that will yield a profit on the investment. No private business could long survive such a financial system. The restriction that is now oppressive and useless was probably necessary when it was adopted, but it should be changed to meet new conditions and modern possibilities.

While most of the older cities of the country suffer more or less embarrassment or inconvenience from antiquated laws or charters, New York is especially unfortunate in this respect. The blame for the present unbusinesslike financial situation, if blame there be, is chargeable to that strong element of public and political opinion that is proved to be over conservative in all matters affecting municipal credits and finance. The Constitution of the State limits the borrowing capacity of cities to ten per cent. of the assessed value of taxable real estate, excepting from this provision only bond issues necessary for protecting the public health or providing additional water supply. The real estate owned by the City, valued on a basis of the assessed valuation of private property at more than \$400,000,000, instead of increasing the credit or debt margin, reduces permanently the borrowing capacity of the municipality by more than \$40,000,000. The credit of the City therefore rests not upon the property it owns, but upon the real estate of private owners on which taxes are collected. For example, if a reckless administration should give away Central Park to private individuals on a tax value of \$86,000,000, the City could then borrow \$8,600,000 on the land sold, but cannot borrow a cent on the same security while owning it.

This method of restricting the indebtedness of municipalities is peculiar to New York, and it was inserted in the State Constitution at a time when the wisest and most far-sighted statesmanship had not foreseen that cities might one day become great corporate enterprises, developing their natural resources into paying properties. States with more modern constitutions limit municipal indebtedness, but in most cases they do it by fixing a maximum rate of municipal taxation. When it is established by organic law that the income of a city cannot exceed a certain sum annually, the expenditures of that municipality are effectually limited. All these constitutional limitations may be wise in a way, and doubtless were necessary in the first instance, but

almost without exception they antedate the successful development of public utilities by municipal corporations. They are invariably arbitrary and cannot be adjusted to local or special conditions.

The City of New York, on account of geographical location and the magnitude of its resources and material possibilities, might reasonably expect of the State special consideration and legislation for the adjustment of its finances. Other large cities in other States possess similar claims to special privileges, but, like New York they are all confined within the same organic legal limitations that bind the smaller cities and towns of the interior. These restrictions were imposed long before the possibilities of public utilities and franchises were realized, but it is a difficult matter to obtain even moderate modifications to meet special conditions. Therefore a businesslike and up to date financial system cannot be quickly established.

In some respects the financial condition of New York is unique. It is one of the few seaport cities of the world owning its water front or possessing the right to acquire that which is not already owned. In recent years an expenditure of some \$30,000,000 in the acquisition of land and the construction of modern piers and bulkheads has created a dock property that is not only of inestimable value to the commercial interests of the City, but yields a revenue ranging from two to three and one-half per cent. above the interest on the bonds issued to pay for the improvements. In brief, a Sinking Fund is provided that will offset the bonds before they mature, leaving the City a great unencumbered property paying a net revenue of six or seven per cent. on the original cost.

But with this possibility of a public utility demonstrated, the financial system forced upon the City by organic law compels the charging of all dock bonds against the borrowing capacity or debt limit of the City, and consequently greatly restricts a public improvement that not only yields direct profit, but greatly benefits the general commercial interests of the community. The controlling financial regulations of the City's water department were regarded as liberal, if not generous, at the time they were created, because an abundant water supply was known to be essential to the existence of an urban community. The original water works, costing a large sum of money, have been developed into a profitable investment, yielding revenue beyond the interest on the origi-

nal cost. The net revenue will increase steadily as the system is perfected and extended and waste is reduced to a minimum. Yet, with the fact demonstrated by years of experience that supplying water is a safe and profitable investment for the municipality, the bonds outstanding for the present system are a charge against the debt limit.

New York has developed two great public utilities into sources of net revenue—her docks and her water system—and has thereby demonstrated that old fashioned financial restrictions and limitations may be safely modified to meet modern conditions. What New York has done other cities may do, because all have many conditions in common. Existing safeguards of municipal credit antedate the general tendency to derive a fair revenue from all assets that are the property of the people. It would not be wise to remove all these restrictions at once—in fact, municipalities must be exceedingly cautious of experiments with credit and investments—but where the improvement of a public utility has been successful as a source of revenue, further development along that line should not be a charge against the general credit or borrowing capacity. Municipalities may not undo the mistakes of the past, but they need not repeat them, and like individuals they should profit by experience.

Most of the laws regulating the financial systems of great cities were enacted at a time when public franchises were not recognized as available assets. Not so long ago municipalities, instead of charging for the private use of streets and highways, readily granted almost any permit asked for with a general view to promoting growth of population and private wealth. Such a method of development may be necessary, or at least permissible, in small and struggling municipalities ambitious for a rapid growth, but in a great city where every franchise right has a dividend paying value that may be closely estimated, the financial systems of the future must make the most of all sources of revenue that lighten the burden of taxation. Franchises that are worth assured dividends to the private interests that obtain them should yield a point for the municipality, and where they represent great public utilities the revenue in question might be set aside as a sinking fund to acquire the property when it is no longer an experiment.

Public ownership of all profitable public utilities would at first

glance seem to be an essential part of any correct system of municipal finance, but cities must proceed to such a system with caution and by slow degrees. In the first place, where the franchises have been granted without adequate compensation the municipality cannot confiscate or partially destroy private right, and where an experiment is to be made it should never endanger the public credit. But where a public utility has been successfully developed into a profit yielding investment and there is opportunity to extend the development the temporary indebtedness that may be necessary for the purpose should not affect the credit of the city and should not curtail its borrowing power.

The financing of the construction of the Underground Rapid Transit Railroad in New York affords a striking illustration of the peculiarities of the financial system by which the City is so often embarrassed. The bonds of the City are issued to pay for the construction; yet the City is secured on a contract that provides for the interest and principal of the securities, the whole to be paid within fifty years and at the end of that period the road becomes the property of the City. At the end of fifty years the principal and interest of all the bonds issued for this work will have been paid from the revenue received by the municipality from the operation of the road. The entire property then reverts to the City free of cost to the taxpayers, and all receipts of the future above operating expenses go into the general treasury for the reduction of taxation. So far the plan is excellent; but under our present financial system the entire issue of bonds, \$36,000,000, is a charge against the credit and borrowing capacity of the City from the time of letting the contract. While the private investment involved is paying interest and providing a sinking fund the credit of the City is curtailed for the full amount, and therefore other developments must be delayed.

The Rapid Transit Railroad is, it is true, a financial experiment, and therefore caution is essential to safety, but after the road has been in operation, say five years, if the earnings are ample to meet contract requirements, then the credit of the City that is involved should be released that it may be devoted to other profitable purposes. Along the same line the borrowing capacity of the City might be safely relieved of the charge of all bonds for completed water works and dock improvements that are yielding ample revenue for interest and sinking fund. There

would be neither risk nor experiment in such an arrangement. In fact, the City of New York under a correct financial system established by organic law might spend \$100,000,000 in further improvement of its great water front and derive enough income from the investment to retire the entire debt in less than thirty years. The same principle is applicable to any municipality with similar natural resources and public utilities.

The financial problems of all cities include the much discussed and never settled question of the proper adjustment of the proportion of money spent that is to be raised by direct taxation and the amount to be taxed upon future generations through the medium of bond issues. The general and apparently popular division is to tax the present for current expenses and the future for permanent improvements. This rule, however, need not be imperative and the division may be safely adapted to special conditions. The general tendency in all financial transactions is toward lower rates of interest, and cities when they borrow money should issue long term bonds with the privilege of funding them at any time that a lower rate may be obtained.

The perfect system of municipal finance is not yet in sight, but safe and steady progress toward improvement is apparent in many directions. Ancient methods and antiquated restrictions must soon give way to the imperative demands of intellectual advance. The credit of a great municipality must not be trifled with or subjected to rash experiments, but cities must not repeat the mistakes of the past. Municipal credit cannot be protected or promoted by a policy that limits or restricts income. Great cities should not be seriously hampered in the work of developing profitable public utilities. A city is a great business corporation, and its finances must be adjusted on sound business principles.

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